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ABSTRACT

The ordinary conduct of school business is accompanied today by risks that were rare or unknown a few decades ago. This ERIC Digest discusses how risk management, a concept long used by corporate decision makers, can help school boards and administrators conserve their districts' assets. Risk management is a coordinated effort to protect an organization's human, physical, and financial assets. The Digest describes how school districts can identify and evaluate risks and delineates various loss-control activities that help to reduce or eliminate risks. It also discusses the ways in which districts can finance unavoidable risks, usually through the purchase of insurance. Finally, the factors of an effective risk-management program are identified. (LMI)

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Risk Management

By Joan Gaustad

The ordinary conduct of school business is accompanied today by risks that were rare or unknown a few decades ago. Gang warfare and drug trafficking reach onto school property. Firearms often escalate schoolyard disagreements to literal matters of life and death. Soaring health insurance costs and litigation threaten district financial assets. Schools also must comply with an increasing number of government regulations, many of which require additional expenditures while creating new areas of liability.

Risk management, a concept long used in corporate decision-making, can help school boards and administrators confronted by these challenges conserve their districts' assets.

What Is Risk Management?

Risk management is a coordinated effort to protect an organization's human, physical, and financial assets. The first step is systematic *identification of risks* to which a district may be exposed and *analysis of their probable frequency and severity*. Then *loss control* measures are implemented to reduce or eliminate risks.

Risk financing strategies are used to manage the district's financial exposure for remaining risks. A district may *transfer* legal or financial responsibility for risks to other entities, such as insurance companies, or may decide to *retain* risks if that is more cost-effective.

The key to success in each area of risk management is thoughtful planning supported by ongoing monitoring and adjustment. The key to a program's overall success is a comprehensive, systematic approach that takes into account all relevant factors.

How Can School Districts Identify and Evaluate Risks?

Familiarity with basic school law will help school boards and administrators recognize areas of vulnerability in their districts. Dunklee and Shoop (1993) define relevant legal terms (such as tort, negligence, and due care) and explore their meaning in specific school contexts. Minor and Minor (1991) discuss thirty issues that are particularly likely to give rise to litigation against schools and provide synopses of key court decisions.

Examining documents such as district financial records, inventory lists, and property appraisals will reveal potential losses. Records of past losses, including personal injury claims, are also valuable. Flowcharts are useful in identifying risks inherent in processes, such as drug or weapons searches.

Inspection of buildings, equipment, and playgrounds will reveal problems needing minor repair and potential sources of long-term liability requiring major changes. Dunklee and Shoop provide checklists to aid inspections of specific areas such as science laboratories, industrial arts classrooms, and physical education facilities. Districts also may request inspections by their insurance carriers or state and local agencies.

Obtaining varied perspectives increases the range of risks identified. Cody and Dise (1991) designed a process to guide small groups of staff and students in school risk identification. Surveys can procure input from large numbers of people. Nondistrict perspectives are also valuable. A district may consult a risk-management professional, or may ask knowledgeable community members to volunteer on a risk-management committee (Gaustad 1993). Dunklee and Shoop suggest having an attorney periodically review a district's legal affairs.

Risk analysis helps set priorities for loss control. In one method, *frequency of loss* and *potential severity* of a risk are rated and the two figures multiplied. Risks with high numbers deserve high priority in preventive planning (Cody and Dise). Dunklee and Shoop use three variables: *probability* of occurrence, *frequency* of exposure, and *severity* of potential consequences.

Risk analysis provides "a consistent way of thinking about risk" (Dunklee and Shoop), but it is not precise or objective. Not all assets can be given a dollar value—for example, the public perception of school staff as competent and trustworthy. The administrator's judgment must be the final determinant.

How Can Risks Be Reduced or Eliminated?

Loss-control activities fall into three categories. *Loss avoidance*—avoiding or abandoning risky activities—is usually impractical for schools because so many of their activities are mandated. Schools can avoid new risks by examining proposed activities before

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they are implemented (Randal 1986).

Loss prevention efforts seek to reduce the frequency of losses. Maintenance, supervision, and instruction are key areas for loss-prevention planning. For example, preventive maintenance extends the life of boilers and other mechanical systems; increasing supervision in hallways and cafeterias decreases incidents of school crime and violence; and instructing students in the safe use of athletic equipment reduces injuries.

The goal of *loss reduction* is to reduce the severity of unavoidable losses. Some activities, such as installing automatic sprinkler systems in case of fire, seek to *minimize* damage. *Salvage* actions, such as providing counseling after a school tragedy to reduce emotional damage to staff and students, take place after a loss.

Successfully implementing loss-control activities involves three steps: (1) creating policies and procedures, (2) communicating them to all concerned, and (3) enforcing them consistently. These steps are essential whatever the area of risk, whether the goal is preventing on-the-job injuries, administering discipline without violating students' rights, or keeping playgrounds hazard-free.

How Can School Districts Finance Unavoidable Risks?

Purchasing insurance is the most common type of *risk transfer*. Districts also may transfer or assume risks in contracts and other agreements. Contracts should be carefully reviewed; Johnston (1993) cites an example in which proper wording in a transportation contract protected a district from $1 million in claims after a fatal bus accident. Clear rules governing use of school facilities should be part of any community-use agreement, and user groups should be required to provide insurance unless the district is willing to assume liability (Morley 1990).

The *insurance deductible*, a set portion of a loss a district agrees to pay in return for a premium reduction, is one form of *risk retention*. Another is *self-insurance*. Self-insuring can save districts money and increase budgetary stability by avoiding cyclic fluctuations in the commercial insurance market, but it demands considerable expertise and long-term planning. Small districts may combine resources in *insurance pools* to self-insure on a group basis.

Two types of self-insurance must be distinguished. In the first type, also called *self-funding*, funds are set aside in anticipation of future losses and regular payments are made to increase this reserve. This method spreads out the cost of major losses over time (Randal). In the second approach, sometimes called *going bare*, losses are paid out of current operating monies (Cheng and Yahr 1989). A catastrophic loss could devastate an unfunded district.

Districts typically combine transfer and retention. Insurance policies with deductibles are a nearly universal example. Many districts self-insure one or two areas of risk and purchase insurance for the rest. The optimal combination of risk-financing options depends on a district's needs and resources (Johnson).

What Makes a Risk-Management Program Effective?

Risk-management begins at the top. School boards publicly acknowledge its importance, create policy that sets out general risk-management objectives, assign responsibility for achieving those objectives, and provide administrators with sufficient resources to design and implement effective procedures (Cody and Dise).

Risk-management operations should be consolidated and overall responsibility given to one administrator. Splitting activities among several departments results in inefficiency and duplication of effort. Responsibility for risk management should be assigned near the top of the organizational ladder; delegating it to a low-level administrator sends the message that it is not highly valued.

Districts must take a long-range perspective in evaluating the success of a risk-management program. Short-term accounting methods that cover only one fiscal year may need to be changed (Dunklee and Shoop).

Risk management is a complex field with a specialized technical vocabulary. Districts should carefully study the issues and seek expert advice before venturing into the field. Nonetheless, its potential ability to save districts money and give them greater control over their financial affairs makes risk management well worth exploring.

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